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SUBJECT: MEXICO'S NEW ECONOMY SECRETARY MEETS WITH  
AMBASSADOR

Summary

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11. (SBU) Mexico's top trade and industry official wants to deepen North American economic integration and improve the country's investment climate to counter growing competition from China and elsewhere. After a short briefing on the Mexican government's (GOM) approach to dealing with the recent spike in tortilla prices, Secretary Sojo and the Ambassador exchanged ideas on how best to work together to achieve the Calderon Administration's longer-term strategic goals, in particular by taking advantage of the Security and Prosperity Partnership. Three areas they agreed to look at more closely were: 1) increasing the number and capacity of border bridges; 2) looking at industrial sectors that might be ripe for cumulation agreements or other rule of origin adjustments to keep more manufacturing supply chains in the Americas; and 3) comparing ideas for facilitating passage of legitimate goods across the border. Outstanding bilateral trade issues like trucking, chicken, conformity assessment bodies, and investment disputes were also discussed. End summary.

Setting

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12. (U) Ambassador Garza hosted breakfast for Eduardo Sojo, Mexico's new Economy Secretary, and his five top deputies January 19. The DCM and officers from ECON, FAS, and FCS also attended. Over the course of a very candid conversation, the Mexicans expressed enthusiasm about working with the USG on the whole range of bilateral, regional, and global trade issues.

Dodging the Tortilla Fastball

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13. (SBU) By permitting more corn imports and reaching agreement with a number of important corn merchants and tortilla producers on temporary price restraints, Sojo and his team believe they have largely defused the tortilla "crisis" that has grabbed headlines and prompted protests here the past two weeks. Post will send septel a more detailed read-out and analysis of this issue, but so far, the GOM seems to have dodged a bullet.

## Looking to Continental Trade Integration...

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¶4. (SBU) With this crisis hopefully on the wane, Sojo said he wants to focus on the Calderon Administration's strategic goals. Foremost among these are building a more competitive North American economy and improving Mexico's investment climate. On the former, his team made clear their understanding that NAFTA, while a great success, cannot be relied on by itself to face the challenges of an increasingly globalized world economy. Sojo applauded the textiles cumulation agreement between the U.S. and Mexico that will allow Central American countries to ship duty-free to the U.S. garments made with Mexican inputs, and vice versa. He wants to expand such agreements (or use other mechanisms that can loosen rules of origin) to new sectors (like electronics) and new free trade partners we have, or hope to have, in common (such as Colombia). The Ambassador indicated that we would be willing to hear out the GOM's ideas on what other sectors might be ripe for such arrangements, but noted that we could expect opposition from vested interest groups with strong lobbies in Washington.

¶5. (SBU) Another area Sojo emphasized as key to improving trade flows in North America was the harmonization of the three countries' regulatory regimes. The Ambassador agreed, and added that improving the functioning of our border system was also critical. He agreed to share with Sojo's team a list of simple ideas for facilitating the cross-border flow of legitimate goods, and to look jointly at the issue of border bridges, many of which are becoming ever-more

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congested bottlenecks. The two agreed to tee up these issues for Secretary Gutierrez's February 1 visit to Mexico City and the SPP ministerial in Toronto later in the same month. While professing Mexico's strong commitment to the SPP, Sojo admitted that no one has yet been identified as the overall GOM lead coordinator, a position crucial to ensuring that the work of the Security and Prosperity pillars meshes coherently. He attributed this to the fact that the transition process is still not complete. Sojo has personally urged Juan Camilo Mourino Terazo, the policy chief in the Office of the Presidency, to take up this role, at least through the February ministerial, but Camilo has made no commitment.

## And an Improved Investment Climate

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¶6. (SBU) Sojo predicted that President Calderon will use his attendance at the World Economic Forum in Davos to project one principal theme -- Mexico, unlike some of its Latin American neighbors (e.g., Venezuela, Bolivia, and Ecuador), is not interested in turning back the clock to state-run economies. To the contrary, Mexico's doors are wide open to foreign investment, and the GOM will work hard to improve further the country's investment climate, particularly given the challenge posed by China, which in recent years has attracted more and more money and manufacturing capacity. The Ambassador and DCM noted that most U.S. investors paid close attention to the following two areas: 1) security and the rule of law and 2) competition in crucial sectors like telecoms. Sojo took both these points onboard, and with regard to opening up key sectors to more competition, said that President Calderon would "no doubt" take on some of Mexico's more egregious monopolies and oligopolies within his first three years in office, even though these would be tough political fights. The Ambassador suggested that Calderon could also use his time in Davos to plug for re-engaging on the stalled Doha trade negotiations, one of President Bush's priorities.

Bilat Issues - Trucking, Corn, Poultry, Standards Bodies

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17. (SBU) Sojo was enthusiastic about the planned upcoming announcement of the U.S. cross-border trucking pilot program, noting compliance with this long overdue NAFTA commitment would provide a boost to President Calderon's political standing, but acknowledged that similar plans had been scuppered at the last minute before. With regard to Mexico's obligation to open its corn and bean markets at the start of 2008, he said it would be fully honored, but would require delicate handling due to the almost religious significance of corn to Mexico's cultural identity. There was also discussion of the steps that agricultural officials from both sides need to take to ensure that Mexican chicken breasts meet U.S. health standards and can be exported north -- currently, the ball is in the court of the Mexican poultry industry, which still needs to pass muster with its own regulators. The U.S. side raised the pending applications of two U.S. standards certification organizations that still have not been approved to operate in Mexico, despite having complied with all the requirements. Finally, referring back to how Mexico can attract more investment, the Ambassador noted that quick resolution of outstanding disputes with U.S. investors would send a clear signal that the GOM is indeed serious about improving the climate here for foreign business.

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